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S E C R E T SECTION 01 OF 06 ROME 001226

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FOR THE PRESIDENT FROM THE AMBASSADOR

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SUBJECT: SCENESETTER FOR PM BERLUSCONI'S OCTOBER 13 TRIP TO
WASHINGTON

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Classified By: Ronald P. Spogli, Ambassador, for reasons 1.4 (b) and (d)
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11. (C/NF) Summary. Mr. President, Silvio Berlusconi's October 13 visit to Washington provides an opportunity to strengthen our close ties with a valuable ally in Europe. Since your June 11-13 visit, Berlusconi has consolidated the standing of his government in Italian public opinion through a series of domestic reforms designed to stave off economic crisis and political malaise. His preoccupation with domestic challenges has limited his ability to contribute as fully to our shared international goals as he has in the past, but under his guidance the Italian government has become more vocal in its support of the ISAF mission in Afghanistan and mustered the courage to push for a tougher public line on Iran. However, fear of casualties in Afghanistan may be preventing Berlusconi from making good on his commitment to you to assume a stronger military role in ISAF. In addition, Berlusconi's friendship with Putin and Italy's growing dependence on Russian energy supplies has led him too often to stray into apologetics for Russian behavior in Georgia. His visit provides us an opportunity to shape Berlusconi's thinking as Italy prepares for Italy's G8 presidency next year. End Summary.

Domestic Politics: Berlusconi Firmly in Control

12. (C) Prime Minister Silvio Berlusconi is in an enviable position domestically, enjoying so comfortable a majority in parliament he can pass virtually any legislation without the support of the opposition. You will find him upbeat and self-confident, having successfully mediated a high-stakes deal to bring Alitalia back from the brink of bankruptcy. Berlusconi used his first five months back in government to deliver results on election promises, though long-term solutions to most problems are still needed. The trash problem in Naples is not yet permanently solved, but the

streets are cleared and troops are keeping dumps and incinerators open. Public worries about street crime have been addressed by a sweeping new security law. A public finance law has overhauled the annual budget process, which traditionally has eaten up months of Parliament's time, but Italy's faltering economy casts doubt on whether budget targets will be met. Berlusconi's government drafted and passed these laws mostly without consulting the center-left opposition, which has grown more fragmented and less effective.

13. (C) This fall's almost entirely domestic agenda leads with fiscal federalism (a priority for Berlusconi's allies in the Northern League) and justice reform, which is a combination of personal safeguards for Berlusconi and long-needed reform for a justice sector that is overly politicized and ineffective. Planned budget cuts in Defense may weaken Italy's contribution to NATO and UN operations over the long term, but funding for key areas such as ISAF should remain untouched. Most foreign policy initiatives will be directed by Berlusconi personally without the need of any legislation. Given Berlusconi's personal popularity, his coalition's strength, and the center-left's state of disarray, most of our interlocutors agree that Berlusconi has a largely clear path ahead.

Sluggish Economic Growth

14. (SBU) Although Italy ranks as the world's seventh largest market economy, its influence and stature as a G8 member is threatened by perennially sluggish economic growth. Its economy has grown a full percentage point slower than the EU

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average this decade. A burdensome bureaucracy, corruption, organized crime, a low birth rate, severe labor market rigidity, a weak educational system, and a business culture that rewards connections instead of merit are all factors contributing to stagnation. Italy's slow economic growth rate limits its ability to be the kind of "boots on the ground" ally that we want it to be. For example, Italy will this year cut its foreign assistance budget by 60 percent. Italy is also becoming increasingly concerned about the impact of the U.S. financial crisis on its economy. Berlusconi will join other EU leaders this weekend in a Paris summit called by President Sarkozy to discuss the financial crisis. Ironically, however, because of its relatively low level of integration into world financial markets, Italy may actually be spared some of the economic challenges confronting some of its EU colleagues.

15. (SBU) To address this economic threat to our alliance, in 2006 the Embassy launched the Partnership for Growth, an ambitious, multi-faceted effort to spur economic dynamism by helping move research to market, grow risk capital markets, support innovation by strengthening intellectual property rights, and create Italian entrepreneurial role models.

16. (SBU) We have made tremendous progress. As you saw first hand when you participated in the Partnership for Growth event at the American Academy of Rome in June, we have strengthened the hands of those Italians who want to move their country forward, and in doing so we have greatly improved Italian perceptions of the United States. I am happy to report that because of our Partnership for Growth, in Italy, the words "innovation" "growth" and "entrepreneurship" are now usually associated with the United States of America.

We want to move this program to the next level to ensure that it is rooted and has strong Italian ownership. We call this our "Partnership for the Future." We are seeking to identify USG funding of USD 400,000 in FY 2009 to support this effort.

Not Seeing Eye-To-Eye on Russia - At All

17. (S/NF) Italy's stance vis-a-vis Russia has become a point of friction in what is otherwise an almost friction-free relationship. Berlusconi directly manages Italy's relationship with Moscow and since the August Russia-Georgia crisis he has criticized Georgia, apologized for Russia and gone so far as to claim credit for dissuading Putin from occupying Tbilisi. His desire to see Russian actions in Georgia as "an isolated incident," as he told Vice President Cheney recently, has been unswayed by facts. Berlusconi's self-styled role as "mediator" between Moscow and Washington has been supported here by the full political spectrum; even the center left has had little critical to say of Italy's Russia policy. Italian officials continue to insist that Russia's demands on Kosovo, Georgia, Ukraine and Missile Defense get a fair hearing in transatlantic and international fora.

18. (S/NF) GOI officials were already cautious on the prospect of a NATO Membership Action Plan (MAP) for Georgia and Ukraine before the Russia-Georgia crisis this summer: now, it is clear from official commentary and body language that there is a high degree of anxiety in GOI circles over the MAP question. While the GOI has criticized Russia's recognition of South Ossetian and Abkhaz independence, it continues to insist that Russia not be isolated because it is an "essential player." We have advised the Italians that taking a soft line on Russian actions against Georgia could damage their credibility, as well as substantively impact our collective prospects for gaining cooperation from Moscow. We

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are also concerned by a growing sympathy for Medvedev's calls for a new security framework to supersede NATO, OSCE, and CFE. It would be useful for Berlusconi to hear from you directly and candidly that public endorsement of Russia's activities threaten to sow discord in transatlantic relations.

19. (S/NF) The presence of a strong communist party and a history of leftist governments in Italy gave Russia a degree of influence not seen in any other Western European country. More recently, a commercial dependence on Russia, particularly in the energy sector, and a close personal relationship between Putin and Berlusconi based on mutual commercial interests and Berlusconi's preference for dealing with assertive world leaders appear to be greater motivating factors in Italy's relations with Russia.

Russia and Energy Security
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10. (C/NF) Italy's dependence on energy from Russia also remains a cause for concern, although Italy is less dependent on Russia for energy than many of its EU partners. Its location gives Italy easier access to a more diverse range of energy resources than other EU countries. There are already natural gas pipelines from Libya and Algeria to Italy. An Algeria-Sardinia-Italy pipeline is being planned. Italy hopes to make increased use of Liquid Natural Gas (LNG); a recently completed LNG terminal will bring new gas from Qatar starting in early 2009. Italy also supports the Turkey-Greece-Italy (TGI) pipeline projects intended to bring Caspian basin natural gas to Western Europe. Connections to other sources of energy notwithstanding, Italy's overall dependence on Russia for 30 percent of its energy needs will likely continue for the foreseeable future.

11. (C/NF) Italy's energy company ENI (30 percent owned by the Italian government) is now a major partner of Russia's GAZPROM and is building pipelines under the Baltic and Black Seas that many fear will increase Europe's dependence on Russian energy. ENI has also given Gazprom access to North African energy resources (in exchange for increased access to Siberian gas fields). The GOI claims to share our concerns about overdependence on Russian energy supplies, but in fact it seems to take comfort in what it perceives to be its

special relationship with Russia.

Encouraging Nuclear Energy, Opportunities for U.S. Firms

¶12. (C/NF) The Berlusconi Government tells us it is serious about following through on its election promise to re-launch the Italian nuclear energy sector within five years, with a goal of eventually obtaining up to 25 percent of its energy from nuclear power. Italy plans to begin construction of new nuclear plants by 2013; actual construction would take at least an additional 5-7 years. If the GOI follows through on this plan, it will result in tens of billions of dollars in commercial contracts. We have already seen high-level lobbying by British, French and Russian government leaders, all of whom are apparently seeking to ensure that their firms participate in this enormous project. There is still time for the U.S. to weigh in on Italy's choice of nuclear technology partners. We should engage at the highest levels if we want to ensure favorable consideration of U.S. companies and protection of U.S. energy security interests. Your meeting provides an opportunity to urge Berlusconi to 1) give U.S. firms fair consideration and 2) take strategic energy security concerns (i.e. Italy's worrisome dependence on Russian energy) into consideration when selecting sources of nuclear power technology.

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Addressing Italian Behavior in Afghanistan

¶13. (S//NF) The Italians dropped from fourth to sixth largest contributor to ISAF in August when they relinquished Regional Command -- Capital (RC(C)) to the French. Italy is now consolidating its 2,200 troops in RC-West, which it commands and where it has a PRT (Herat), and has sent 34 Carabinieri police trainers to Afghanistan at our request. Unfortunately, the significance of this contribution has been undermined by Italy's growing reputation for avoiding combat and paying ransom and protection money. This reputation is based in part on rumors, in part on intelligence which we have not been fully able to corroborate. True or not, the fact remains that Italy has lost twelve soldiers in Afghanistan -- fewer than most allies with comparable responsibilities. Most of the major combat engagements in the Italian command area (RC-West) have been conducted by U.S. and Afghan forces. Indications that we have received from COMISAF suggest that Italy's alleged behavior may be contributing to strains within ISAF.

¶14. (S//NF) I have raised this issue with PM Berlusconi in the past. He assured me that he was unaware of any such activity and would put a stop to it if he found evidence of it. Although less casualty-averse than his predecessor Romano Prodi, Berlusconi is sensitive to the public opinion fallout that might result were Italy to incur serious losses in Afghanistan. You should make it clear to him that, while we appreciate his willingness to lift geographic caveats and to send Carabinieri police trainers, Italy's shaky reputation, even if unearned, is undermining its credibility within ISAF. More troublingly, if there is any basis to the allegations, Italian actions are endangering allied troops.

Iran

¶15. (C) Berlusconi has brought a new level of rhetorical support from Rome for P5 1 efforts. You will want to thank him for Italy's support on recently adopted UNSC Resolution 1835 and encourage Rome's active engagement within the EU for more robust EU sanctions. Beyond implementation of 1803, the EU needs to reach consensus on the broadest possible package of additional measures. Italy claims that its trade relationship with Iran makes sanctions costly domestically, but nevertheless the government now supports a firmer line on

Iran. In spite of differences at the policy level, Italian cooperation in efforts to prevent Iranian exploitation of the banking system has been good. Italy continues to express interest in more frequent and high-level consultations regarding the P5 1 and Quint.

¶16. (C) FM Frattini's recently announced proposal of the "coalition of the willing" -- in which EU member states would impose selective sanctions based on their trading patterns with Iran -- presents additional opportunities for Italy to press the EU for more aggressive action. Examples Frattini discussed: the Netherlands could apply sanctions in the insurance sector, Austria in the engineering sector, Germany and Italy in the natural gas sector.

Lebanon/Syria
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¶17. (C) You will want to thank Italy for its leadership in UNIFIL as the single largest troop contributor with 2,300 troops. We have been pleased with Italy's leadership in UNIFIL and the performance of General Graziano as commander. We would like to see more assertive work to address provisions of UNSCR 1701, including interdicting arms

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smuggling from Syria and enforcement of the weapons-free zone in south Lebanon. Both the U.S. and Italians are concerned by the findings of the recent Lebanon International Border Assessment Team, which makes it clear that no progress has been made in interdicting arms smuggling from Syria over the past two years. We must continue to encourage Italy to explore ways to strengthen UNIFIL, without an expanded mandate.

¶18. (C) Italy recently offered Syria a high-level platform when FMs Frattini and al-Moallem met in Rome on September 11 and Frattini agreed to travel to Damascus in the near future. Italy has not deployed conditions in engaging Damascus (the GOI continued to meet at high levels with the SARG even as other EU members reduced contacts in the aftermath of the Hariri assassination), and has not achieved tangible achievements in return. Berlusconi's visit offers an opportunity to stress that Italian engagement needs to be conditioned by expectations that Syria meet the benchmarks already laid out by Italy and other EU members, namely: clearly delineating the Syria-Lebanon border, interdicting weapons smugglers entering Lebanon via Syria, and instituting full diplomatic relations with Lebanon.

Basing and Security Cooperation
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¶19. (C/NF) Italy remains our most important European ally for projecting military power into the Mediterranean, Middle East and North Africa. We have 15,000 U.S. military and DOD civilian personnel and 17,000 of their family members on five Italian bases. The GOI has approved the expansion of the base at Vicenza to consolidate the 173rd Airborne Brigade, the deployment of the USAF Global Hawk UAV in Sicily, and we are working with the Italians to stand up the AFRICOM Army and Navy Component Commands in Italy. COESPU (Center of Excellence for Stability Police Units), the Carabinieri-led peacekeeping training center that you initiated with Berlusconi at the G8 Sea Island Summit, has graduated over 1,600 officers from 14 countries, including police peacekeeping units headed to Darfur. In addition to its 2,200 troops in Afghanistan, Italy currently has 2,400 in the Balkans, 2,300 in Lebanon, and is the leading contributor to the NATO Training Mission in Iraq. Italy has provided USD 360 million in aid to Iraq since 2003, and has agreed to reduce \$3 billion in Iraqi Paris Club debt by eighty percent.

Abu Omar Trial Resumes
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¶20. (S) Berlusconi has continued to stand with us as best he can in the trial of twenty-six Americans and seven Italians, including the former chief of Italian military intelligence, charged with kidnapping suspected terrorist Mustafa Osama Nasr, a/k/a Abu Omar in February 2003. The Italian Government asked the Constitutional Court to annul the indictment as it was based on evidence covered by state secrecy. A hearing before the Constitutional Court has been postponed until late 2008 or early 2009, but the criminal trial is proceeding in Milan. The 26 Americans are being tried in absentia and are being defended by Italian court appointed attorneys, with one exception: the Air Force retained an Italian attorney to represent the lone U.S. serviceman charged in the case, Colonel Romano.

Looking Ahead toward the Italian G8 Presidency
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¶21. (C/NF) The Berlusconi government is still in the early stages of planning for the G8 summit, with site selection still something of an issue. We are working with our Italian

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contacts to determine GOI priorities. We expect Berlusconi to try to use the summit to ease tensions with Russia. Italy is also considering using the G8 to focus attention on Afghanistan and Pakistan, which have risen recently on the GOI's radar as priority issues, and to emphasize achievements and goals in the area of peacekeeper training, particularly given the success of COESPU. The Italians have also indicated that Non-Proliferation may also be a priority. With recently announced cuts in Italian foreign assistance, we suspect that the Berlusconi government may seek to de-emphasize assistance to Africa.

Climate Change
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¶22. (SBU) Although constrained by EU policy and by its Kyoto commitments, Italy usually sees more eye-to-eye with the U.S. on climate change than other EU countries. For example, on October 15 Berlusconi will make his case to other EU heads of state for changes in the EU's post-Kyoto climate package that would ease the burden on Italian industry. Italy will be hosting the second Major Economies (ME) leaders' meeting on the margins of the 2009 G8 summit. You could ask Berlusconi to use the Italian G8 Presidency and ME summit to move us toward a global climate agreement that the U.S. could sign, one that includes commitments for countries like India and China.

Conclusion
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¶23. (C) This will likely be Berlusconi's last official visit to Washington during your administration. It presents an opportunity to strengthen the roots of the many projects that you have worked on or launched together -- Iraq, Afghanistan, COESPU -- and to obtain his commitment to behave more responsibly toward Russia. It also presents an opportunity to stress our continued commitment to Italian prosperity through the Partnership for Growth and through possible U.S. investment in Italian nuclear power. Berlusconi sees this government, his fourth, as the one that will define his place in Italian history. His partnership with the U.S., and with you personally, will be a cornerstone of that legacy.
SPOGLI